



Howden Africa

2015 Interim Results Presentation

10th September 2015

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- We expect the presentation to last for approximately 1 hour. Please hold your questions for the end of the presentation.



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2015 Interim Results Highlights

Thomas Barwald - CEO

Earnings per share

139.15 cents

Decreased by 19.9% from 173.80 cents in 2014

Operating profit

R110.2 million

Decreased by 30.8% from R159.2 million in 2014

Challenging market conditions in the first six months

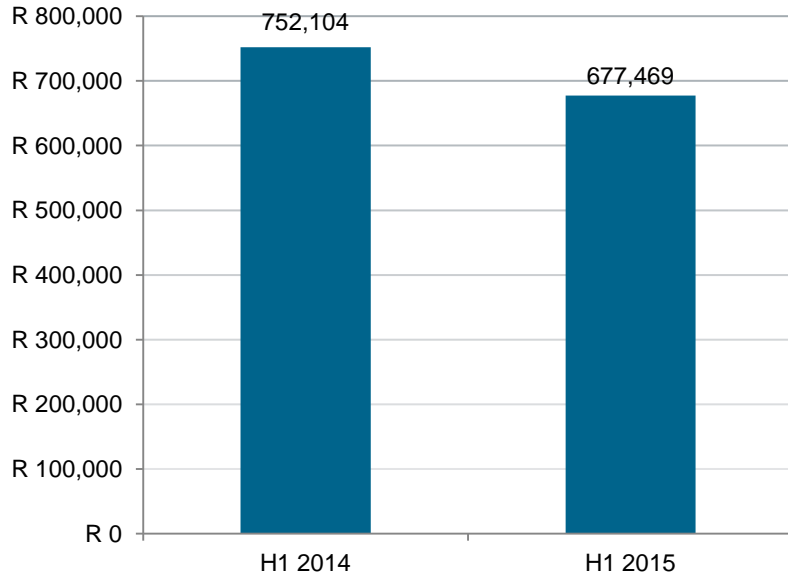
Weakening demand from mining, power generation and industrial markets for both New Build and Aftermarket (spares and services supply)

Environmental Control division improved profits by 38.2% and had good order intake in the first six months of 2015 but is now experiencing **more challenging trading conditions**

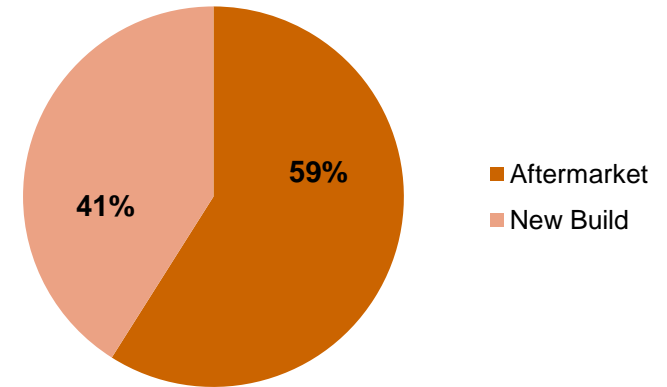
Balance sheet is in **good shape** and the company remains debt free.

Howden Africa 2015 Interim Results 'Dash Board'

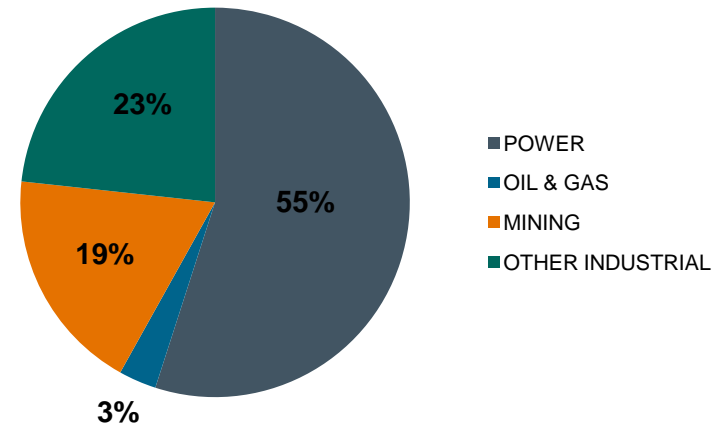
Revenue



Revenue (Aftermarket vs. New Build)



Revenue by Industry



Revenue of **R677.5 million** to June 2015 is **9.9% behind H1 2014**.

Our customers' appetite across all industries for major **original equipment** manufacturing capital investment remains **subdued**, due to persistent slow economic activities and funding shortages.

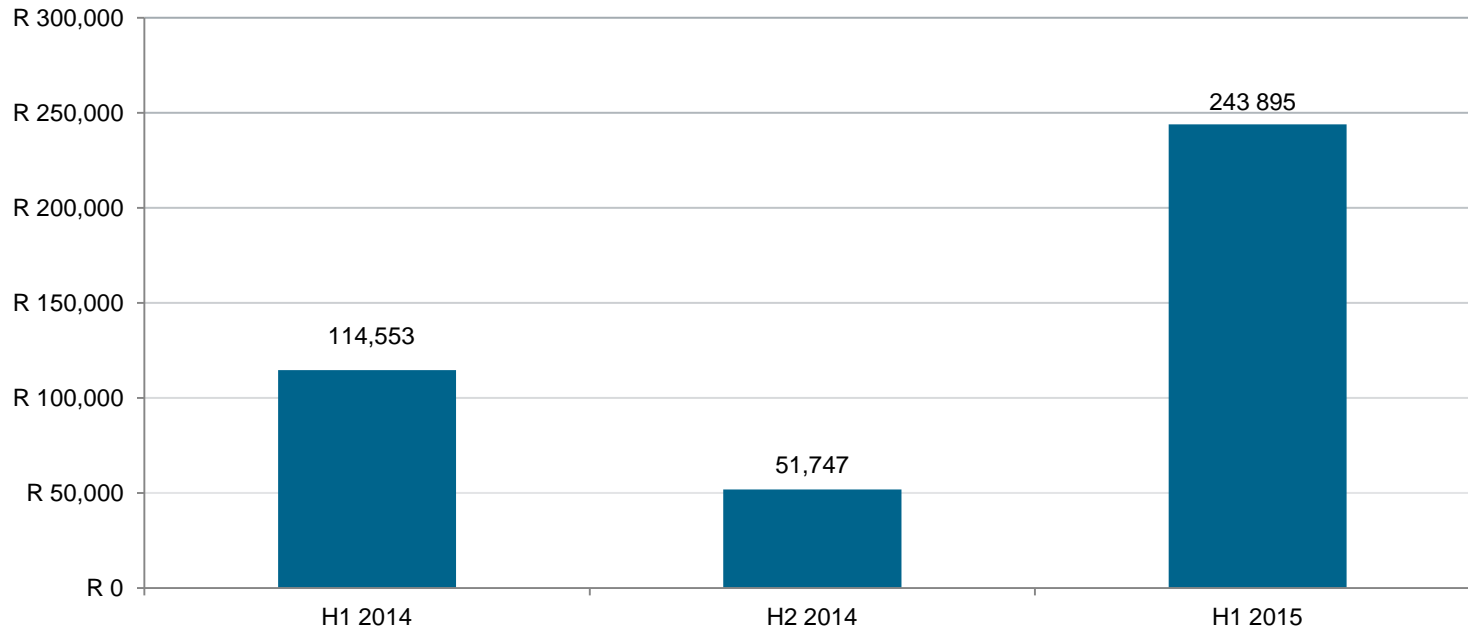
The **market environment for spares and service supply** (aftermarket) has also significantly slowed down as our key customers implement cost saving measures.

Revenue from **Power generation** has **reduced to 55%** of total revenue from **60%** reported for the **FY2014**.



Environmental Control Division

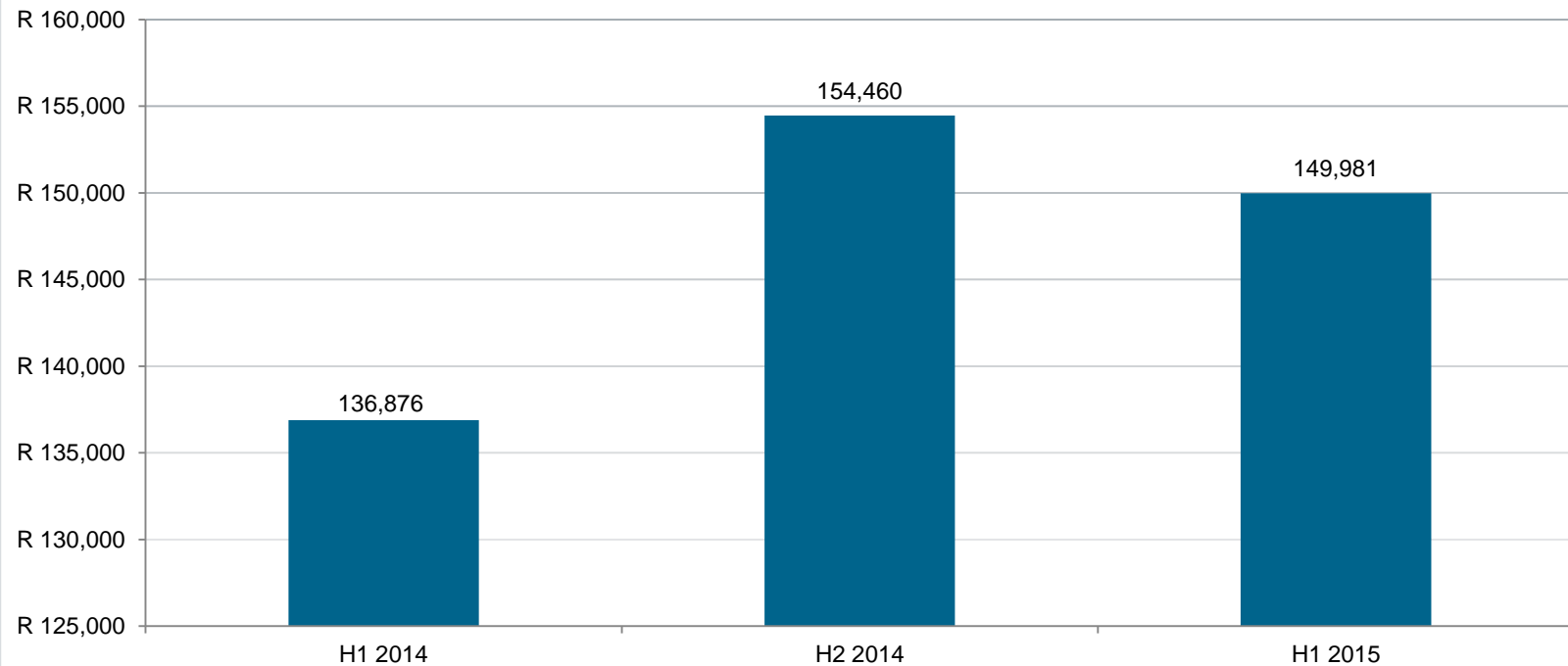
ORDERS



The division experienced an **excellent order in take in the first six months** of 2015. However we continue to rely on a few large orders and **lack consistency of orders between months and quarters.**

Although large-scale environmental control legislation and general environmental pressure and awareness in Africa continues, we are **now facing more challenging market conditions.**

SALES



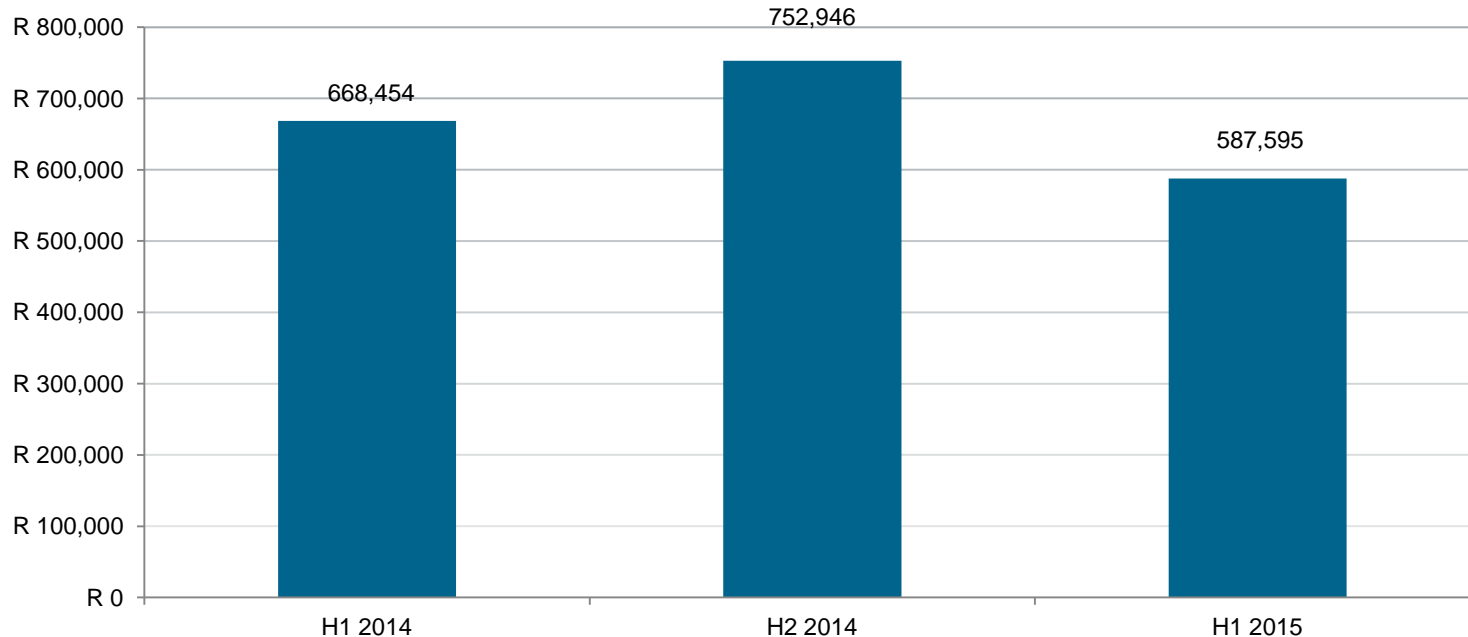
The Environmental Control division delivered a improved performance with **revenue rising by 9.6%** as it successfully executed orders awarded in 2014 and the first half of 2015.

The division has a **good order book as at June 2015** and subject to **no order cancellations** should deliver an **improved performance in the second half of 2015.**



Fan and Heat Exchanger Division

ORDERS

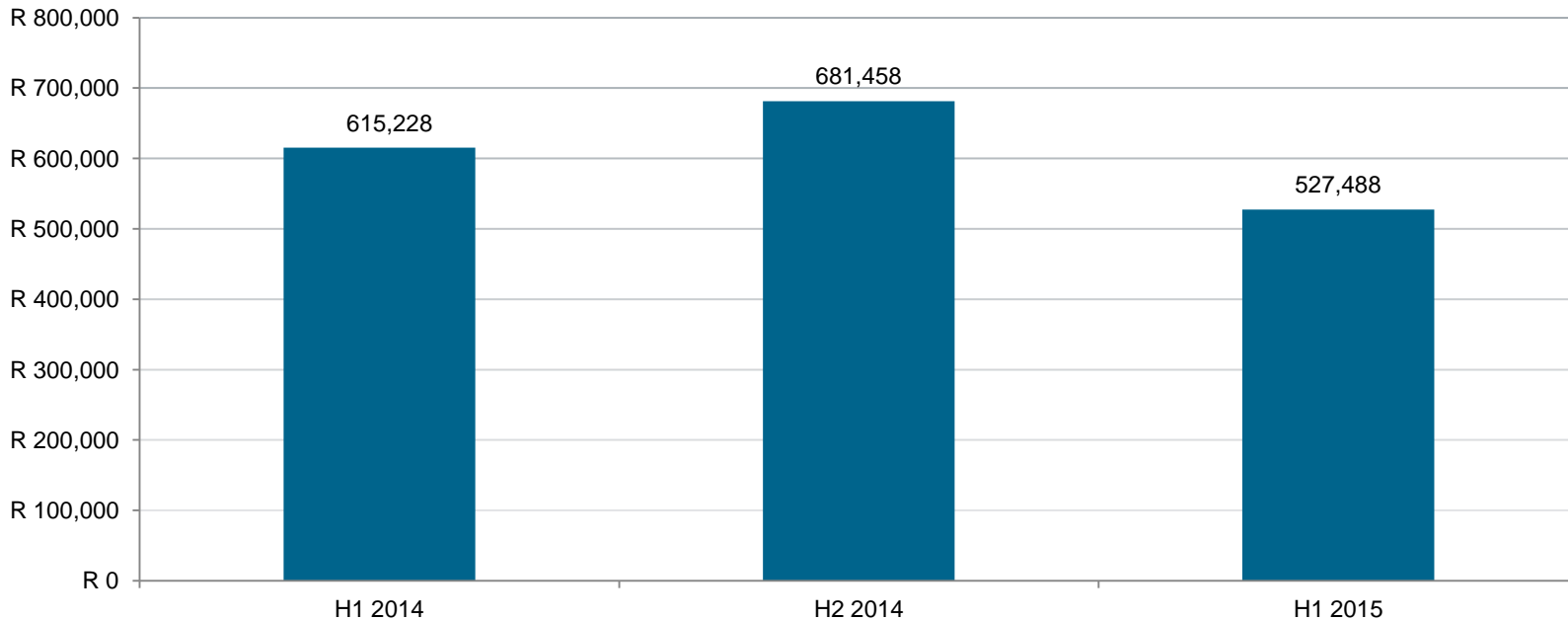


Orders received during 2015 have **decreased 12.1% compared to H1 2014.**

Customer funding issues and **financial performance** have resulted in a **slow down in Aftermarket order intake (service and spares supply)** in particular.

Key customers are implementing cost saving measures through reducing **expenditure on essential and non essential maintenance.**

SALES



The Fan and Heat Exchangers division saw a **decrease in revenue of 14.3%** to R527.5 m on the **back of reduced order intake**.

Customers have **reduced expenditure** on both **new capital projects and aftermarket** (service and spares supply).

The company will continue to **focus on listening to the voice of the customer** and position itself to meet their changing requirements.



Financial Overview

Kevin Johnson - CFO

Financial Performance

Interim Result 2015 - Statement of Comprehensive Income

Compared to the corresponding 6 months in 2014;

Revenue down 9.9%.

Operating profit of R110.2 million is a decrease of 30.8%. Due to sales volume reduction, product mix and increased sales price pressures.

Investment income increased by 91% to R17.2m on increased cash balance.

Earnings per share decreased by 19.9%.

| | Six months ended 30 June 2015 (Unaudited) R'000 | Six months ended 30 June 2014 (Unaudited) R'000 | Change % | Twelve months ended 31 December 2014 (Audited) R'000 |
|--|---|---|---------------|--|
| Revenue | 677 469 | 752 104 | (9.9) | 1 588 022 |
| Cost of sales | (485 562) | (501 312) | | (1 086 529) |
| Gross profit | 191 907 | 250 792 | (23.5) | 501 493 |
| Operating profit | 110 211 | 159 181 | (30.8) | 326 847 |
| Investment income | 17 152 | 8 978 | | 23 961 |
| Finance costs | (617) | (3 002) | | (23) |
| Profit before income tax | 126 746 | 165 157 | | 350 785 |
| Income tax expense | (35 283) | (50 919) | | (81 596) |
| Profit for the period | 91 463 | 114 238 | (19.9) | 269 189 |
| Other comprehensive income | | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | | |
| Currency forward contracts: | | | | |
| Reclassification during the period to profit or loss | 514 | – | | 500 |
| Net income/(loss) during the period of contracts not yet matured | 1 576 | – | | (1 557) |
| Tax impact of cash flow hedges | (585) | – | | 296 |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | 1 505 | – | | (761) |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | | | |
| Pension fund plan income/(loss) | 1 225 | (2 490) | | (9 388) |
| Tax impact of pension fund plan | (343) | 697 | | 2 629 |
| Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods | 882 | (1 793) | | (6 759) |
| Other comprehensive income/(loss) for the period, net of tax | 2 387 | (1 793) | | (7 520) |
| Total comprehensive income for the period | 93 850 | 112 445 | (16.5) | 261 669 |
| | Cents | Cents | | Cents |
| Earnings per share | | | | |
| – basic and diluted | 139.15 | 173.80 | (19.9) | 409.54 |
| Headline earnings per share | 139.29 | 173.84 | (19.9) | 410.22 |

Financial Performance

Interim Results - Statement of Financial Position

Comments on key changes within the Statement of Financial Position;

Trade and other receivables have increased by **R86.3m** from the end of 2014 due to an **increase in trade receivables** and a **change in the construction contract funding position on increased Environmental Control Division orders**.

Current liabilities has decreased by **R76.6m** and **cash and cash equivalents** by **R23.1m** from the end of 2014 mainly due to the **payment of 2013 and 2014 management and ERP licence fees (R51m)**.

Pension fund asset is a **liability of R5.8m** due to actuarial movements. The defined benefit fund is in the **process of being closed**.

| | Six months ended 30 June 2015 (Unaudited) R'000 | Six months ended 30 June 2014 (Unaudited) R'000 | Twelve months ended 31 December 2014 (Audited) R'000 |
|---|---|---|--|
| ASSETS | | | |
| Non-current assets | 191 854 | 209 203 | 201 818 |
| Property, plant and equipment and intangible assets | 146 890 | 148 391 | 152 389 |
| Pension fund plan surplus | – | 3 575 | – |
| Other non-current assets | 44 964 | 57 237 | 49 429 |
| Current assets | 1 288 626 | 1 087 712 | 1 227 645 |
| Inventories | 223 225 | 297 145 | 225 405 |
| Trade and other receivables | 460 851 | 303 620 | 374 552 |
| Cash and cash equivalents | 604 550 | 486 947 | 627 688 |
| TOTAL ASSETS | 1 480 480 | 1 296 915 | 1 429 463 |
| EQUITY | | | |
| Share capital and reserves | | | |
| Share capital and reserves | 915 594 | 672 520 | 821 744 |
| Total equity | 915 594 | 672 520 | 821 744 |
| LIABILITIES | | | |
| Non-current liabilities | 152 257 | 87 808 | 118 409 |
| Other non-current liabilities | 146 442 | 87 808 | 113 534 |
| Pension fund plan deficit | 5 815 | – | 4 875 |
| Current liabilities | 412 629 | 536 587 | 489 310 |
| Other current liabilities | 412 629 | 527 278 | 489 310 |
| Bank overdraft | – | 9 309 | – |
| Total liabilities | 564 886 | 624 395 | 607 719 |
| TOTAL EQUITY AND LIABILITIES | 1 480 480 | 1 296 915 | 1 429 463 |



Trading Outlook

Thomas Barwald

Capital spend within **power generation, mining and general industry** is expected to remain **subdued**.

Fans and Heat Exchangers division continues to **focus** on the **supply of service and spares to key industries**.

Although **order intake** in the **Environmental Control Division** is **ahead** of the corresponding period in 2014, the division is **experiencing challenging market conditions**.



Questions?

What is the company doing about the downturn in performance?

(Thomas) As a result of the downturn the company is looking at all avenues to mitigate costs and has entered into consultation with some employees.

The company has not declared a dividend despite sitting on a substantial amount of cash. What is the reason?

(Thomas) As published in a statement in advance of our AGM 'The Board of Howden Africa considers it crucial to maintain an appropriate capital structure coupled with the financial wherewithal to enable it to rapidly pursue and implement any meaningful opportunity that it determines will benefit Howden Africa customers, shareholders and stakeholders. In order to ensure such strategic flexibility, and following a substantive internal process of deliberation, the Board has resolved that it is in the best medium to long term interests of the company and all of its stakeholders that the payment of ordinary cash dividends be discontinued for the foreseeable future.'

What is the progress with the companies BEE transaction and why is it taking so long?

(Thomas) We continue to work diligently on what continues to be a complex process. Unfortunately we cannot provide any further details on the reason for this due to confidentiality reasons but please be assured the matter is being treated as a key priority for the business.

Cash flow from operations saw a big drop in 1H15 mostly related to a big increase in accounts receivables R86m and decrease in current liabilities of R77m which adds to a NWC cash outflow of approximately R163m. Can you please provide more details on these movements especially the accounts receivable increase. Does it have anything to do with Eskom deferring payments or any credit related risks?

(Kevin) Nothing to do with Eskom. Reasons for the movement are;

- *accounts receivable* - increase in non power related trade receivables and a change in funding position on construction contracts within the Environmental Control Division on improved order intake.
- *current liabilities* - the payment of 2013 and 2014 management and ERP licence fees (R51m).

**At the heart
of your
operations**

Thank You

